



THE CITY OF SAN DIEGO

---

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

---

**Date Issued:** April 10, 2015

**IBA Report Number:** 15-09

**Charter Review Committee Date:** April 16, 2015

**Item Number:** 2

---

# Budgetary Issues for Charter Review Committee Consideration

## BACKGROUND

On December 18, 2014, Council President Sherri Lightner issued a memorandum requesting that all Department Directors and City Councilmembers submit potential updates and modifications to the Charter for consideration by the Committee on Charter Review (Committee). In response, the Office of the Independent Budget Analyst (IBA) released a memorandum on February 2, 2015 identifying sections of the Charter for the Committee's consideration. As part of that memorandum, the IBA suggested that the Committee discuss whether certain budget processes, principles and/or practices should be considered for inclusion in the Charter. The purpose of this report is to begin a discussion of this matter at the April 16, 2015 Committee meeting.

Several City Councilmembers also recommended budget related changes in their responses to Council President Lightner's call for suggested Charter changes. In a memorandum dated February 2, 2015, Councilmember Chris Cate called for the Committee to consider adding a Stability Reserve or Rainy Day Fund section to the Charter. Councilmember Myrtle Cole suggested in her February 2, 2015 memorandum that the Charter be "amended to provide the City Council with the sole authority to initiate Mid-Year Revisions to the budget based on a set of established criteria." Councilmember Todd Gloria, in a January 26, 2015 memorandum, suggested that the Committee consider including elements of the Mayor's Five Year Financial Outlook, the Statement of Budgetary Principles, key budget dates (including the annual budget hearings), and the Mid-Year Budget Monitoring Report in the Charter. He also recommended that the annual Appropriation Ordinance be evaluated (including examining whether the process should continue to be separate from the adoption of the budget as noted in the City Attorney's February 5, 2014 report), and requested that the Committee "examine opportunities which allow the Council to reopen the budget for needed amendments as we currently do when accepting the Mid-Year Budget Monitoring Report."

The last Charter Review Committee convened in 2007, and its final report made eleven Charter amendment recommendations for the June 3, 2008 election, six of which were turned into measures for

the ballot. Additionally, three changes were identified for future ballots, and eleven items were suggested for a future Charter commission or committee's consideration. In March 2011, the office of the IBA was asked to determine which issues from the 2007 Charter Review Report remained unresolved. Among the conclusions included in [IBA report 11-24](#) was a recommendation that a charter amendment enabling the City Council to make mid-year budget adjustments be researched for possible inclusion on a future ballot.

On October 22, 2013, the City Attorney's office offered a draft plan for charter reform. In fulfillment of the first step of that plan, the City Attorney released a [legal review of the San Diego Charter](#) on February 5, 2014 identifying sections for review, and offering options for remedying ambiguous, outdated, and incomplete provisions. That legal review includes a number of budget related provisions that are further addressed in the fiscal and policy discussion section below.

After the City transitioned to a Mayor-Council (Strong Mayor) form of government, a number of issues related to budget process authority surfaced. The IBA released a memo on October 26, 2006 recommending that the Mayor inform the Council about any mid-year budget changes that impact service levels to the community or alter the Council's adopted modifications to the Mayor's proposed budget. The City Charter currently sheds little light on budget authority matters throughout the year once the budget is adopted. Goodwill actions between the Mayor and City Council since Strong Mayor implementation have addressed issues in an effective but potentially temporary manner, and depend on the willingness of future administrations to engage with the Council.

Based on suggestions from previous Charter Review Committees, Councilmembers, the City Attorney, and issues that have surfaced in recent years, this report highlights nine budget processes, principles and/or practices (listed below) that the Committee may want to consider including certain elements of in the Charter. For each issue, we provide background and information about who raised the issue, where the issue is currently addressed, and examples of how the issue is handled in other city charters when available. Due to the significance and complexity of these issues, and the extensive discussion and vetting that is warranted, our office does not have recommendations at this time.

**Budget Processes, Principles and/or Practices for Consideration:**

1. Five-Year Financial Outlook
2. General Fund Reserves
3. City Council Budget Priorities Resolution
4. Mid-Year Council Budget Amendment Authority
5. Capital Project Planning and Program Development
6. Budgetary Cooperation/Communication Between the Executive and Legislative Branches
7. Reporting of Performance Results
8. Appropriation Ordinance
9. Key Budget Dates, Call for Budget Hearings, and Mid-Year Monitoring Report

## FISCAL/POLICY DISCUSSION

The following are nine budget processes, principles and/or practices that the Committee may want to consider for inclusion in the Charter:

## 1. Five-Year Financial Outlook

### Issue raised by:

Councilmember Gloria – In his January 26, 2015 memorandum to Council President Lightner, Councilmember Gloria requested that the Charter Review Committee discuss codifying elements of the budget process. As part of that request, he asked the Committee to consider incorporating the Mayor’s Five-Year Financial Outlook (Outlook) in the Charter.

### Items for consideration

1. Require the Mayor issue an updated Outlook annually
2. Include timing of the release (e.g. no later than November of each year)
3. Major components that should be addressed by the Mayor in the Outlook

### Currently addressed in:

San Diego [City Council Budget Policy 000-02](#) (PDF) states that the Outlook shall be:

- Prepared for the General Fund and project revenues and expenditures over a five-year period
- The guiding document for the City’s long-range fiscal planning and serve as the framework for the development of the annual budget
- Presented to the City Council no later than November every year

The [FY 2015 “Statement of Budgetary Principles”](#) (PDF), which was adopted by the City Council as a companion resolution to the Appropriation Ordinance, represents an annual agreement between the Council and the Mayor. It requires the Mayor to update the City’s Outlook in November and present the results to the Committee on Budget and Government Efficiency and the City Council.

### Example(s) of related language in other city charters:

Section 9.119 of San Francisco’s Charter includes a requirement that a five-year financial plan be proposed by the Mayor by March 1<sup>st</sup> of each odd-numbered year, and reviewed, amended, and adopted by the Board of Supervisors by May 1<sup>st</sup> of the same year. It also states that the financial plan shall include:

- A forecast of expenditures and revenues during the five-year period
- Actions proposed to balance revenues and expenditures during each year of the plan
- A summary of each department’s strategic goals, resources allocated to meet those goals, and changes in service levels expected given the investment levels proposed

## 2. General Fund Reserves

### Issue raised by:

Councilmember Cate – Councilmember Cate’s Charter Review Committee Priority Memo dated February 2, 2015 includes a request that the Committee consider adding Charter language requiring a Stability Reserve or “Rainy Day Fund,” and that the Committee consider under what conditions monies would be allocated to that fund.

### Items for consideration

1. Add a Stability Reserve or “Rainy Day Fund”
2. Revise or revert back to previous Charter language regarding the “revolving fund”
3. Update the entire section to reflect the City’s current reserve policy

City Attorney Goldsmith – The City Attorney’s report to the City Council on February 5, 2014 states that Charter section 91 is contradictory because it refers to a “revolving fund” that can only be used in case of emergency. The memo further recommends that the language in Charter Section 91 revert back to pre-1962 language or be revised.

Independent Budget Analyst – In the IBA memorandum from February 2, 2015, we echoed the City Attorney’s concerns, and suggested that the Committee consider clarifying this entire section to reflect the City’s current reserve policy.

Currently addressed in:

The [City Reserve Policy 100-20](#) (PDF) establishes requirements for the amounts, uses and approval levels for an Emergency Reserve, Stability Reserve, and Excess Equity.

Charter Section 91, as mentioned above, includes outdated language that requires the Council to “create and maintain a permanent revolving fund, to be known as the General Reserve Fund, for the purpose of keeping the payment of the running expenses of the City on a cash basis.”

Example(s) of related language in other city charters:

Los Angeles’ Charter section 302 establishes a General Fund, Reserve Fund, and a Budget Stabilization Fund. The Reserve Fund is divided into two accounts in the Charter, the Contingency Reserve Account and the Emergency Reserve Account, to fund unanticipated expenditure and revenue shortfalls. While many of Los Angeles’ fund and account policies are established by City Council ordinance, the Charter includes requirements for the balances of accounts, and voting thresholds required to transfer funds. For instance, the City Council is required to annually allocate funds so that the Emergency Reserve Account’s balance is “not less than two and three-fourths (2 ¾) percent of all General Fund receipts.” Additionally, two-thirds of the City Council must vote (three-fourths if vetoed by the Mayor) to make a transfer from the Emergency Reserve Account. Section 341 of the Los Angeles City Charter also allows Reserve Fund transfers after adoption of the annual budget with the recommendation of the Mayor (and a majority vote of the Council), or with a majority vote of the Council (provided it is approved by the Mayor or the Mayor’s veto is overridden).

San Francisco’s Charter includes section 9.113.5 for Rainy Day Reserves. It dictates how and when funds are allocated to the reserve, and under what circumstances the budget can appropriate money from the reserve. For instance, the Charter states that “if the Controller projects that total General Fund revenues for the upcoming budget year will exceed total General Fund revenues for the current year by more than five percent, the budget shall allocate the anticipated General Fund revenues in excess of that five percent growth (the excess revenues) as follows:

1. 50 percent of the excess revenues to the Rainy Day Reserves, with 75 percent of that amount deposited to the City Reserve and 25 percent to the School Reserve;
2. 25 percent of the excess revenues to capital and other one-time expenditures; and,
3. 25 percent of the excess revenues to any lawful governmental purpose.”

Section 1212 in Fresno’s Charter includes the following for emergency situations:

“The Council shall establish a fund known as the ‘Unappropriated Reserve Fund’ for the purpose of meeting unforeseen contingencies and emergencies of the City for such amount as established by the Council. Said fund shall remain intact except by the affirmative vote of at least five members of the Council with a statement declaring the reason for its use.”

### **3. City Council Budget Priorities Resolution**

Issue raised by:

Independent Budget Analyst – The IBA’s memo from February 2, 2015 suggested the Committee consider

Item for consideration

1. Include a reference to the Council’s Budget Priorities Resolution process and timing

updating the Charter to reflect this early step in the budget process. The Council's Budget Priorities Resolution allows the Council to provide timely guidance to the Mayor as well as inform the public about its budget priorities in advance of the Mayor's development of the annual Proposed Budget.

The Council Budget Priorities Resolution was originally recommended by the Strong Mayor-Strong Council Transition Committee in 2005 to ensure the Council provided early guidance to the Mayor as he or she developed the annual budget. It was implemented beginning with the FY 2007 budget process and has been a matter of practice ever since.

Currently addressed in:

The City Council's Budget Priorities Resolution is not found in any official document or requirement.

#### **4. Mid-Year Council Budget Amendment Authority**

Issue raised by:

Councilmember Gloria – Councilmember Gloria's January 2015 memo recommended that the Committee consider incorporating the Mid-Year Budget Amendment Authority Ordinance language in the Charter, and examine other opportunities for Council to reopen the budget for amendments during the course of the year.

Items for consideration

1. Include the Council's Mid-Year Budget Amendment Authority in the Charter
2. Give the Council the sole authority to initiate Mid-Year Revisions

Councilmember Cole – The memo from Councilmember Cole in February 2015 requested that the Committee consider amending the Charter to provide the Council "with the sole authority to initiate Mid-Year Revisions to the budget based on a set of established criteria," and without requiring the Mayor to initiate the change.

Independent Budget Analyst – The IBA's February 2015 memo and [IBA report 11-45, Mid-Year Budget Adjustments](#) (PDF) recommend that the Council consider incorporating the Mid-Year Budget Amendment Authority Ordinance language.

Currently addressed in:

The Mid-Year Ordinance, which was passed on August 4, 2011, provides Council the opportunity to revise the Mayor's proposed Mid-Year budget amendments up to the amount recommended by the Mayor.

This Ordinance was enacted to address issues between the two branches regarding the authority to make mid-year budget amendments. These issues surfaced as a result of the change in the form of government, and the Charter's lack of guidance on authority levels once the budget is adopted. As a result, this ordinance is currently based on a goodwill agreement between the Mayor and the Council and may want to be considered for codification in the Charter.

Example(s) of related language in other city charters:

At any meeting after the budget has been adopted, Fresno's Charter section 1206 permits the Council to amend or supplement the budget with a motion approved by at least five members "to authorize the transfer of unused balances appropriated for one purpose to another purpose or to appropriate available funds not included in the budget."

## 5. Capital Project Planning and Program Development

### Issue raised by:

Independent Budget Analyst – The IBA’s February 2015 memo suggests the Committee consider incorporating elements of recently implemented capital project planning and development processes such as:

- The annual development and release of a Multi-Year Capital Plan (MYCP)
- The State of the CIP semi-annual reports
- [Council Policy 000-31](#) (PDF), Capital Improvement Program (CIP) Transparency
- [Council Policy 000-32](#) (PDF), CIP Neighborhood Input on Infrastructure Needs and Priorities

### Items for consideration

Incorporate in the Charter:

1. The MYCP
2. State of the CIP semi-annual reports
3. Elements of the Council Policy on CIP Transparency
4. Elements of the Council Policy on CIP Neighborhood Input on Infrastructure

### Currently addressed in:

The items noted above are referenced in the City’s Budget Policy 000-02. There are currently no Charter requirements for a Multi-Year Capital Plan or for the other items noted.

## 6. Budgetary Cooperation and Communication Between the Executive and Legislative Branches

### Issue raised by:

Councilmember Gloria – The January memo from Councilmember Gloria requested the Committee consider incorporating elements of the “Statement of Budgetary Principles” into the Charter.

Independent Budget Analyst – The February 2, 2015 IBA memo also recommended the Committee consider incorporating sections of the “Statement of Budgetary

Principles” (Principles) into the Charter. The Principles require the Mayor to inform the Council in writing prior to making service reductions or eliminations during the course of the budget year. Per the Principles, budgetary changes that improve efficiency of service delivery while carrying out legislative intent do not require advance notification. However, in this case the Mayor is required to provide the Council with an informational memo upon implementation.

### Items for consideration

1. Incorporate elements of the Statement of Budgetary Principles in the Charter
2. Repeal Charter section 69, and codify the City’s budget process and the relationship between the Mayor and Council in Article XV

City Attorney Goldsmith – The February 2014 memo from the City Attorney notes that Charter Section 69, *Fiscal Year and Manager’s Estimate*, is outdated with respect to the Mayor-Council form of government, and recommends that the City’s budget process and relationship between the Mayor and Council be codified through additions to Charter Article XV, *Strong Mayor Form of Governance*. The City Attorney further notes that this would obviate certain annual actions such as the adoption of the “Statement of Budgetary Principles” and would allow for all relevant budget provisions to be located in one place.

### Currently addressed in:

- The Statement of Budgetary Principles (R-309142 in FY 2015) as is discussed above and below
- Charter Section 69, *Fiscal Year and Manager’s Estimate*, as is discussed above



- Charter Section 265(b)(13), which requires the Mayor to cooperate fully with the Council and the IBA, including but not limited to, supplying requested information concerning the budget process and fiscal condition of the City to the Council and the Office of the IBA

Additional background:

The “Statement of Budgetary Principles” represents another example of a goodwill agreement between the Mayor and Council in the Mayor-Council form of government. It has been adopted annually since FY 2008 by the City Council as a companion resolution to the Appropriation Ordinance, and addresses budgetary authority and communication of budget changes not sufficiently addressed in the Charter.

The need for this agreement emanated from budget reductions and eliminations to certain services made by the Mayor shortly after the FY 2007 Budget was adopted by Council. The Principles serve to recognize that while the Mayor is responsible for ensuring a balanced budget, the Council sets policy levels for all City services through the annual adoption of the budget, which should not be modified without their knowledge.

## **7. Reporting of Performance Results**

Issue raised by:

Independent Budget Analyst – The IBA’s memo from February 2015 suggested the Committee consider incorporating in the Charter requirements for the Mayor to provide performance reports to the Council and the public, which reflect performance results and future goals for City services and programs.

Item for consideration

1. Incorporate a requirement for the Mayor to provide performance reports to the Council and the public

Currently addressed in:

The “Ten Fundamental Principles for an Effective, Cooperative and Transparent Mayor-Council Form of Government in the City of San Diego” adopted by Council on October 15, 2012 includes Principle 4: “Publicly report performance results and future goals for core City services. This information will be published annually in the Mayor's Proposed and Final Budget; and beginning Fiscal Year 2015, annual performance reporting will be supplemented with quarterly reporting through the issuance of a stand-alone ‘City of San Diego Quarterly Performance Report’ to the City Council, to also be made available on the City's website.”

Example(s) of related language in other city charters:

San Francisco Charter section 9.114 outlines the City’s “Mission Driven Budget,” which provides for a yearly report on performance measures from each department in its budget proposal. This Charter section requires each department provide both the Mayor and the Board of Supervisors with a variety of details about their budgets, including:

- Service outcomes desired by the customers/client of the department's programs and activities
- Strategic plans that guide each program or activity
- Productivity goals that measure progress toward strategic plans
- The extent to which the department achieved, exceeded or failed to meet its missions, goals, productivity objectives, service objectives, strategic plans and spending constraints during the prior year or prior budgetary cycle

## 8. Appropriation Ordinance

### Issue raised by:

City Attorney Goldsmith – The City Attorney noted in his February 2014 memo that currently in the Charter, the Appropriation Ordinance is separate from the adoption of the budget, and that adoption of the Appropriation Ordinance adds at least two weeks to the City’s annual budget process. The City Attorney suggested repealing

Charter Section 71 and incorporating appropriation language into Charter Section 290, *Council Consideration of Salary Ordinance and Budget; Special Veto Power*.

### Item for consideration

1. Repeal Charter Section 71 and incorporate appropriation language into Charter Section 290

### Currently addressed in:

As discussed above, the Appropriation Ordinance is addressed in Charter Section 71, *Preparation and Passage of Annual Appropriation Ordinance*.

### Example(s) of related language in other city charters:

San Francisco’s Charter section 9.100 states that an interim biennial appropriation ordinance must be enacted by the Board of Supervisors on or by June 30 of each year. Not earlier than July 15, and not later than August 1 each year, the Board of Supervisors must also adopt the proposed or amended biennial budget and the biennial appropriation ordinance, which supersedes the interim appropriation ordinance.

## 9. Key Budget Dates, Call for Budget Hearings, and Mid-Year Budget Monitoring Report

### Issue raised by:

Councilmember Gloria – In his January 2015 memo, Councilmember Gloria suggested consideration be given to establishing key budget dates in the Charter, including setting the annual budget hearings and requiring a Mid-Year Budget Monitoring Report.

### Currently addressed in:

- Charter section 265(b)(14), which requires the Mayor to release his or her Proposed Budget no later than April 15<sup>th</sup> of each year
- Charter section 290(b), which requires the Council to hold a minimum of two public hearings on the budget prior to June 15<sup>th</sup> of each year, although each year significantly more hearings are held
- The Annual Legislative Calendar, in which key budget process and adoption dates are adopted to ensure public transparency

### Items for consideration

Incorporate required timeframes for:

1. The Mayor’s annual release of the Multi-Year Capital Plan and the Five-Year Outlook
2. City Council’s annual adoption of the Budget Priorities Resolution
3. Annual departmental/agency budget hearings to be held by the Budget Review Committee
4. Requirement and timing for the Mayor’s May Revise



Example(s) of related language in other city charters:

City	Key Budget Dates Included in Charter
<b>Los Angeles</b>	<ul style="list-style-type: none"> <li>• Fiscal year start and end date</li> <li>• Latest date department heads may submit their budget requests for the next fiscal year</li> <li>• Date Mayor must publish his/her budget priorities for the next year</li> <li>• Submission of Mayor's proposed budget to the Council</li> <li>• Date Council must approve or modify the Mayor's budget by</li> <li>• Due date for Comptroller's detailed statement of estimated money required for interest, sinking funds, outstanding bond indebtedness, and other City obligations</li> </ul>
<b>San Francisco</b>	<ul style="list-style-type: none"> <li>• Fiscal year start and end date</li> <li>• Budgetary cycle start and end date</li> <li>• Date the Mayor and Board of Supervisors must determine if the upcoming budgetary cycle for some or all City departments will be fixed for two years</li> <li>• Date Mayor must propose a five-year financial plan</li> <li>• Date the Board of Supervisors must: <ul style="list-style-type: none"> <li>○ Enact an interim biennial appropriation ordinance</li> <li>○ Adopt the proposed budget</li> <li>○ Adopt the biennial appropriation ordinance</li> <li>○ Review, amend, and adopt the five-year financial plan</li> <li>○ Adopt an amendment to the biennial budget</li> </ul> </li> <li>• Date the Comptroller must have prepared an annual report of the financial condition of the City and County</li> <li>• Last day of any year the Comptroller may recommend additional financial policies or amendments to existing policies to the Mayor and the Board of Supervisors</li> </ul>
<b>Fresno</b>	<ul style="list-style-type: none"> <li>• Fiscal year start and end date</li> <li>• Date Mayor must submit the proposed budget to the Council (which is also when the Mayor must determine and advise the Council of the time when public budget hearings will be held)</li> <li>• Date Council must adopt a budget</li> </ul>

## CONCLUSION

The IBA has presented a number of budget issues that the Committee may want to consider including in the Charter as a result of suggestions from previous Charter Review Committees, Councilmembers, the City Attorney, and in response to events that have occurred since the transition of the City to a Strong Mayor form of government. As we noted earlier, the City Charter sheds little light on budget authority matters throughout the year once the budget is adopted. Goodwill actions between the Mayor and City Council since Strong Mayor implementation have addressed a number of these issues but they depend on the willingness of future administrations to engage with the City Council. In order to facilitate the Committee's discussion of these items, we have provided background and information about who raised the issue, where the issue is currently addressed, and examples of how the issue is handled in other city charters when available. Due to the significance and complexity of these issues, and the extensive discussion and vetting that is warranted, our office does not have recommendations at this time.



Trisha Tacke  
Research Analyst



Andrea Tevlin  
Independent Budget Analyst